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*PROVO GAS PRODUCERS LIMITED · 1964 · ANNUAL REPORT*

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# PROVO GAS PRODUCERS LIMITED · 1964 · ANNUAL REPORT

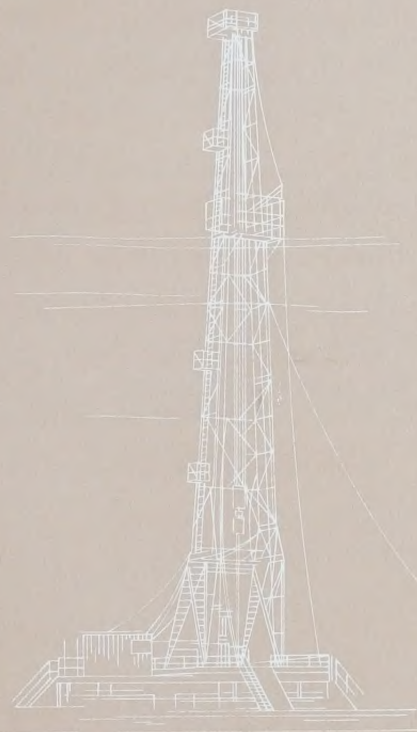


## DIRECTORS

|                       |                   |
|-----------------------|-------------------|
| D. R. ANNETT .....    | Toronto, Ontario  |
| D. C. COLLIN .....    | Calgary, Alberta  |
| B. H. COREY .....     | Chatham, Ontario  |
| C. S. DUNKLEY .....   | Calgary, Alberta  |
| J. P. GALLAGHER ..... | Calgary, Alberta  |
| W. V. MACINNES .....  | Freeport, Bahamas |
| W. E. RICHARDS .....  | Calgary, Alberta  |
| D. M. WOLCOTT .....   | Calgary, Alberta  |

## ANNUAL MEETING

The Annual General Meeting of the Members of the Company will be held at the Company's Head Office, Calgary, Alberta, on June 14, 1965 at 3:00 p.m. A formal notice of meeting and proxy form are enclosed with this report.



## COMPARATIVE HIGHLIGHTS

|                                                                                        | 1964 *       | 1963 *       |
|----------------------------------------------------------------------------------------|--------------|--------------|
| <b>FINANCIAL</b>                                                                       |              |              |
| Gross Income (after royalties and cost of sales) . . . . .                             | \$ 6,560,524 | \$ 5,886,853 |
| Operating Income (after operating and administrative expenses) . . . . .               | 4,200,302    | 3,806,071    |
| Cash Flow (operating income less interest, rentals and exploration expenses) . . . . . | 2,733,485    | 2,559,298    |
| Cash Flow per share . . . . .                                                          | 32¢          | 30¢          |
| Net Income (after all charges) . . . . .                                               | 916,262      | 790,885      |
| Net Income per share . . . . .                                                         | 11¢          | 9¢           |
| Working Capital (Deficit) . . . . .                                                    | (313,644)    | (841,013)    |
| Long Term Debt . . . . .                                                               | 18,858,164   | 15,616,375   |
| <b>OPERATING</b>                                                                       |              |              |
| Gas Production from gas fields (billion cubic feet) . . . . .                          | 18.9         | 17.8         |
| Residue Gas Production from oil fields (billion cubic feet) . . . . .                  | 7.6          | 8.1          |
| Oil Production (net barrels) . . . . .                                                 | 474,078      | 425,080      |
| Liquefied Petroleum Gas Production (Imperial gallons) . . . . .                        | 48,927,042   | 47,597,270   |
| Proved Gas Reserves (billion cubic feet) . . . . .                                     | 526          | 547          |
| Proved Oil and Condensate Reserves (net barrels) . . . . .                             | 8,332,000    | 6,985,000    |
| Wells Drilled . . . . .                                                                | 51           | 43           |
| Acreage — Gross . . . . .                                                              | 5,110,105    | 5,127,520    |
| Acreage — Net . . . . .                                                                | 1,225,447    | 1,232,287    |

\* The 1964 and 1963 financial figures represent Provo, Steelman and associated, wholly-owned companies.

## DISTRIBUTION OF PROVO'S SHAREHOLDERS AND SHARES

| SHAREHOLDERS |       | SHARES |                 |
|--------------|-------|--------|-----------------|
| 4,505        | 61.5% | CANADA | 75.6% 6,379,448 |
| 2,761        | 37.7% | U.S.A. | 23.4% 1,973,160 |
| 59           | .8%   | OTHERS | 1.0% 88,751     |

# PROVO GAS PRODUCERS LIMITED · 1964 ·



## HEAD OFFICE

706 - 7 AVENUE S.W., CALGARY, ALBERTA

## OFFICERS

|                       |                |
|-----------------------|----------------|
| J. P. GALLAGHER ..... | President      |
| D. M. WOLCOTT .....   | Vice-President |
| W. E. RICHARDS .....  | Secretary      |
| H. T. ASTLE .....     | Treasurer      |

## REGISTRARS AND TRANSFER AGENTS

NATIONAL TRUST COMPANY LIMITED

*Calgary, Toronto, Montreal*

## AUDITORS

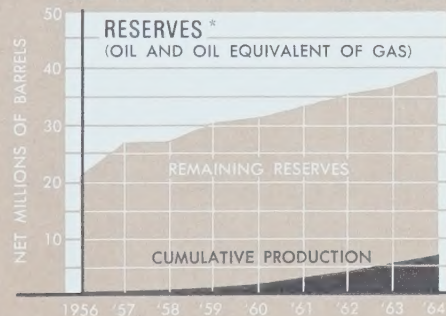
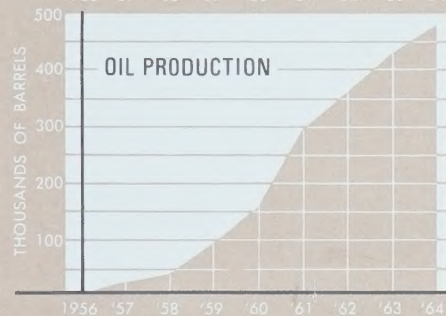
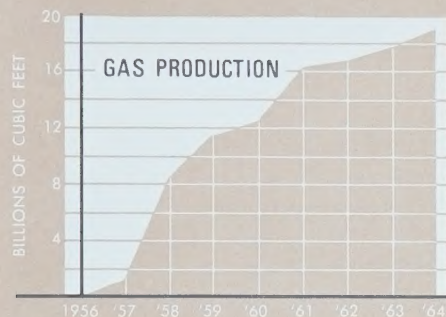
CLARKSON, GORDON & CO.

*Calgary, Alberta*

## STOCK LISTED

TORONTO STOCK EXCHANGE  
CANADIAN STOCK EXCHANGE





\*Reserves after royalties and partners' interests. Gas reserves and production converted to barrels using a price equivalent ratio of 20,000 cubic feet per barrel.

## COMPARATIVE HIGHLIGHTS

### FINANCIAL

|                                                                              | 1964*        | 1963*        |
|------------------------------------------------------------------------------|--------------|--------------|
| Gross Income (after royalties and cost of sales)                             | \$ 6,560,524 | \$ 5,886,853 |
| Operating Income (after operating and administrative expenses)               | 4,200,302    | 3,806,071    |
| Cash Flow (operating income less interest, rentals and exploration expenses) | 2,733,485    | 2,559,298    |
| Cash Flow per share                                                          | 32¢          | 30¢          |
| Net Income (after all charges)                                               | 916,262      | 790,885      |
| Net Income per share                                                         | 11¢          | 9¢           |
| Working Capital (Deficit)                                                    | (313,644)    | (841,013)    |
| Long Term Debt                                                               | 18,858,164   | 15,616,375   |

### OPERATING

|                                                             |            |            |
|-------------------------------------------------------------|------------|------------|
| Gas Production from gas fields (billion cubic feet)         | 18.9       | 17.8       |
| Residue Gas Production from oil fields (billion cubic feet) | 7.6        | 8.1        |
| Oil Production (net barrels)                                | 474,078    | 425,080    |
| Liquefied Petroleum Gas Production (Imperial gallons)       | 48,927,042 | 47,597,270 |
| Proved Gas Reserves (billion cubic feet)                    | 526        | 547        |
| Proved Oil and Condensate Reserves (net barrels)            | 8,332,000  | 6,985,000  |
| Wells Drilled                                               | 51         | 43         |
| Acreage — Gross                                             | 5,110,105  | 5,127,520  |
| Acreage — Net                                               | 1,225,447  | 1,232,287  |

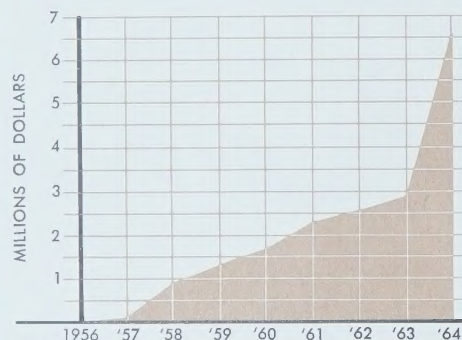
\* The 1964 and 1963 financial figures represent Provo, Steelman and associated, wholly-owned companies.

### DISTRIBUTION OF PROVO'S SHAREHOLDERS AND SHARES

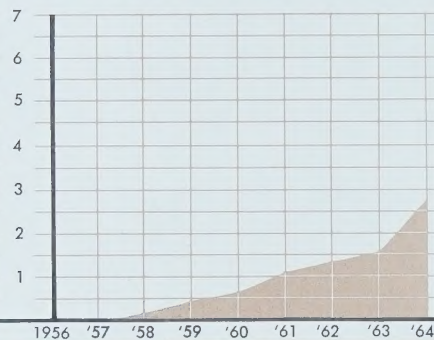
| SHAREHOLDERS |       | SHARES |                 |
|--------------|-------|--------|-----------------|
| 4,505        | 61.5% | CANADA | 75.6% 6,379,448 |
| 2,761        | 37.7% | U.S.A. | 23.4% 1,973,160 |
| 59           | .8%   | OTHERS | 1.0% 88,751     |

## GROSS INCOME

AFTER ROYALTIES

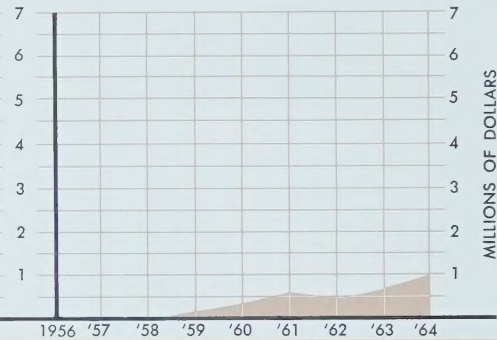


## CASH FLOW

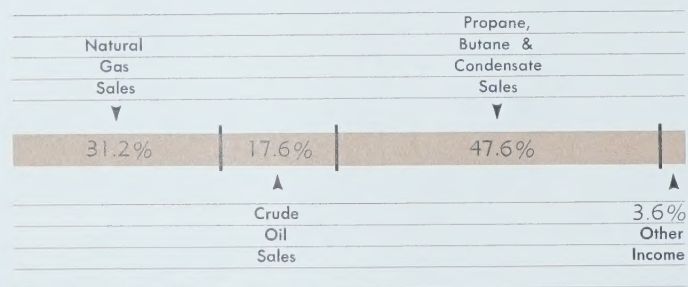
AFTER OPERATING, INTEREST, RENTALS  
AND EXPLORATION COSTS

## NET INCOME

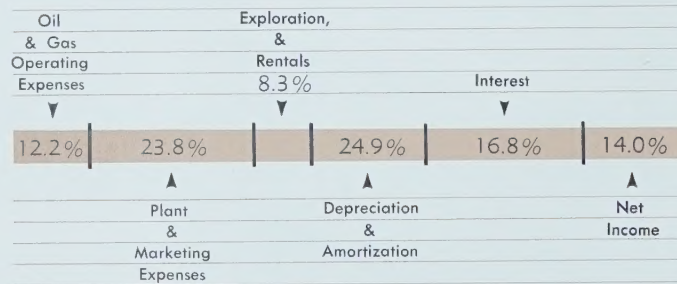
AFTER ALL CHARGES



## SOURCE OF 1964 INCOME



## DISTRIBUTION OF 1964 INCOME





# REPORT OF THE DIRECTORS

## TO THE SHAREHOLDERS:

During 1964, your Company consolidated its affiliated-company interests by acquiring all of the outstanding shares of Steelman Gas Limited in exchange for an equal number of its own shares. Through this acquisition, Edmonton Liquid Gas Limited, Steelgas Limited, Thompson Gas Limited and other associated companies become wholly-owned by Provo. The accounts of these companies have been consolidated in the Provo statements presented in this report.

Provo's 1964 consolidated financial and operating statements indicate the following comparisons with 1963 consolidated statements:

- \* Gross income increased 11%, operating income 10% and net income 16% to 11¢ per share.
- \* Oil production increased 12% to 474,078 net barrels (1,295 barrels per day).
- \* Liquefied petroleum gas production increased 3% to 48,927,042 Imperial gallons (3,819 barrels per day).
- \* Gas production from gas fields increased 6% to 18.9 billion cubic feet (51.5 million cubic feet per day).
- \* Oil reserves increased 19% to 8,332,000 net barrels.
- \* Gas reserves declined 4% to 526 billion cubic feet, following an exchange of gas reserves for producing oil properties.
- \* Gross wells drilled increased to 51, including 31 oil or gas producers.

These activities are reviewed in detail in the following report.

## FINANCIAL

The 1964 and 1963 financial statements presented in this report consolidate the financial statements of Provo and its wholly-owned subsidiaries.

Consolidated gross income from all operations (after royalties and cost of sales) increased 11% to \$6,560,524 from \$5,886,853. Operating income (after operating and administrative expenses) increased 10% to \$4,200,302. Cash flow (operating income less interest, rentals and exploration expenses) increased 7% to \$2,733,485. Net income (after all expenses including depreciation, depletion and amortization) increased 16% to \$916,262, or 11¢ per share, in 1964 from \$790,885, or 9¢ per share, last year.

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Gross income for the first quarter of 1965 increased 2% to \$1,802,000. Operating income for this period is estimated at \$1,161,000.

## PRODUCTION

Net oil and condensate production, after all royalties, increased to 474,078 barrels (1,295

barrels per day) in 1964 from 425,080 barrels (1,165 barrels per day) last year.

Liquefied petroleum gas production during 1964 increased to 48,927,042 Imperial gallons (1,397,914 barrels or 3,819 barrels per day) compared with 47,597,270 Imperial gallons last year.

The 1964 gas production from gas fields totalled 18.9 billion cubic feet (51.5 million cubic feet per day) compared with 17.8 billion cubic feet (48.6 million cubic feet per day) in 1963.

Residue gas production from the Steelman plant decreased 7% to 7.55 billion cubic feet (20.6 million cubic feet per day) in 1964 from 8.12 billion cubic feet (22.2 million cubic feet per day) in 1963. Recoveries of natural gas liquids have been increased from the richer gas that has resulted from the pressure maintenance program in the Steelman oil field.

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Net oil and condensate production for the first quarter of 1965 averaged 1,492 barrels per day, compared with 1,369 barrels per day in the first quarter of 1964.

Gas production from gas fields increased to 59.24 million cubic feet per day in the first quarter, from 55.91 million cubic feet per day in 1964.

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At December 31, 1964, the Company held interests in producing properties that were equivalent to 67 net oil wells and 58 net gas wells.

## RESERVES

Proved recoverable oil and condensate reserves, net to the Company at December 31, 1964, were estimated at 8,332,000 barrels. This figure excludes all probable reserves and the Company's reserves of heavy gravity oil at Hughenden.

Proved recoverable gas reserves at year end were estimated at 526 billion cubic feet. This estimate excludes all probable gas reserves and reserves being processed by the Steelman and Edmonton plants.

The reduction noted in gas reserves resulted from the exchange of gas reserves in north-eastern British Columbia for producing oil reserves in Saskatchewan and Manitoba.

These reserve estimates were determined by the independent consulting firm of James A. Lewis Engineering Co. Ltd.

## EXPLORATION AND DEVELOPMENT

In 1964, your Company participated in drilling 51 wells (15.1 net) which included 20 oil wells (5.5 net), 11 gas wells (4.7 net) and 20 dry holes (4.9 net). This total includes one oil well, 2 gas wells and 5 dry holes drilled under farmout from Provo at no cost to the Company.

In Alberta, Provo participated in drilling 7 oil producers in the Willesden Green field and one oil well in the Red Earth area. It also drilled 5 gas producers in the Provost Unit, 2

### WILLEDSEN GREEN AREA

SOUTH CENTRAL ALBERTA



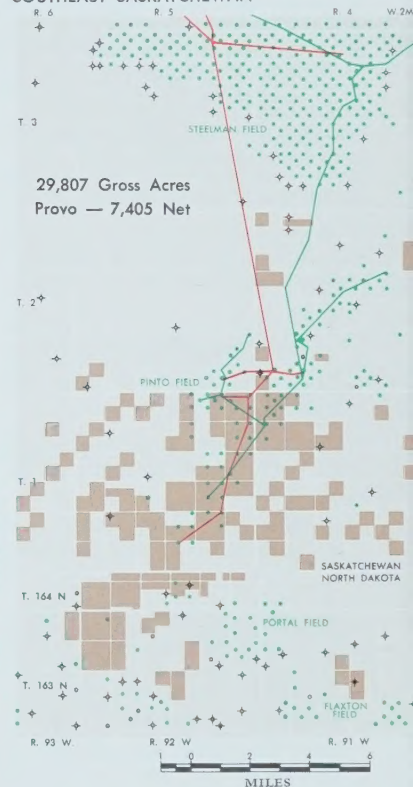
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### PROVO LAND HOLDINGS

- Location or Drilling Well
- Oil Well
- Gas Well
- ✦ Abandoned Well
- Oil Pipeline
- Gas Pipeline

### PINTO AREA

SOUTHEAST SASKATCHEWAN



For Geographical Location See Western Canada Map Page 8



gas wells at Princess and single gas producers at Prevo and Drumheller. In Saskatchewan, 8 oil wells were drilled in the Pinto area, 2 in the North Gull Lake field and one well at Midale. In British Columbia, Provo holds a net 25% carried interest in a gas well completed in the Laprise field.

The Canada Southern North Beaver River well, drilled on the 1,224,050-acre Yukon/Northwest Territories permit block in which Provo holds a 5% interest, was completed in 1964. Tests of the Devonian dolomite yielded gas flows at rates up to 5 million cubic feet per day.

Provo's wholly-owned United States subsidiary, Provo Inc., acquired producing interests in 13 high gravity oil wells and 800 lease acres in the Fred and George Creek field in northern Montana in October, 1964. These properties are currently on production.

Provo Inc. participated in drilling a successful oil producer in North Dakota during 1964.

## ACREAGE

The Company's land holdings at December 31, 1964, totalled 5,110,105 gross acres in Western Canada, the Northwest Territories and the United States. These are equivalent to 1,225,447 net acres, compared with 1,232,287 net acres at the end of 1963.

Petroleum and natural gas lease acreage in the United States was substantially increased during the past year, mainly in the States of Montana and North Dakota. These increases were offset by the surrender of less attractive acreage in Western Canada.

Acreage distribution is summarized in the accompanying schedule. The locations of the

major areas of interest are shown on page 8.

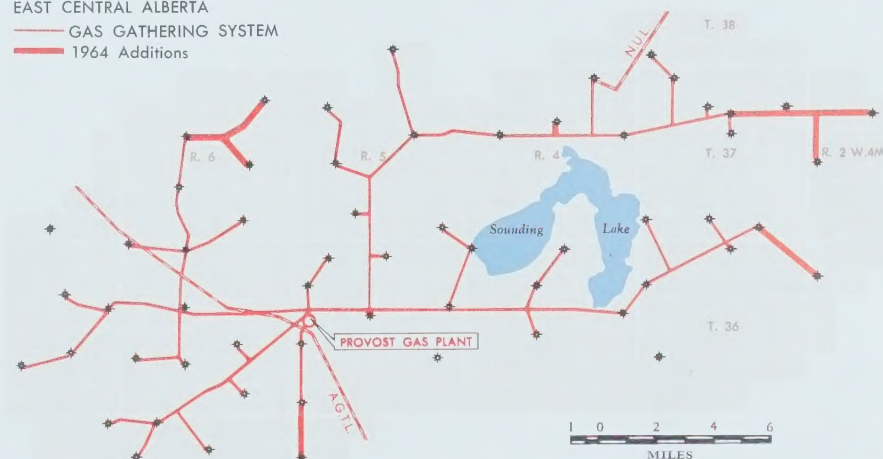
## LAND HOLDINGS AS AT DECEMBER 31, 1964

|                            | GROSS<br>ACRES | NET<br>ACRES |
|----------------------------|----------------|--------------|
| Alberta .....              | 1,392,625      | 518,405      |
| British Columbia .....     | 407,970        | 82,012       |
| Manitoba .....             | 25,399         | 10,495       |
| Northwest Territories .... | 3,165,615      | 577,450      |
| Saskatchewan .....         | 52,373         | 15,262       |
| Montana .....              | 27,366         | 8,904        |
| North Dakota .....         | 38,757         | 12,919       |
| 1964 Total .....           | 5,110,105      | 1,225,447    |
| 1963 Total .....           | 5,127,520      | 1,232,287    |

## PROVOST VIKING GAS UNIT

EAST CENTRAL ALBERTA

— GAS GATHERING SYSTEM  
— 1964 Additions



For Geographical Location See Western Canada Map Page 8

## PROCESSING

As a result of your Company's acquisition of the outstanding Steelman shares, it now operates 3 major gas processing plants in Western Canada.

The Provost plant is located in east-central Alberta in the unitized Provost gas field. Provo holds a 77% interest in this plant and the 60-well gas field. The gas processed by this plant



is sold to Trans-Canada Pipe Lines Limited under a long-term contract. Additional compressor facilities were installed during 1964.

The wholly-owned Steelman plant is operated as a gas conservation project in the Steelman oil field of southeast Saskatchewan. An extensive gathering system transports the flare gas produced by the oil wells to the plant where the liquefied petroleum gases are extracted for sale. The residue gas is sold to Saskatchewan Power Corporation and Trans-Canada Pipe Lines Limited.

This gathering system was recently extended to the Pinto and Douglaston oil fields making additional volumes of flare gas available for processing. The Company has made application to the Saskatchewan Oil and Gas Conservation Board for the right to construct gas gathering facilities from the Steelman plant to gather gas now being flared in the Alameda, Glen Ewen, Hastings, Elmore, Workman and Sherwood oil fields to the southeast of the Steelman field. A hearing of this application will be held in June, 1965.

The Edmonton plant is also wholly-owned and is located immediately south of Edmonton, Alberta. It extracts propane and butane from pipeline gas originating in the Pembina, Bonnie Glen and Wizard Lake oil fields.

During 1964, these plants produced the following quantities of liquefied petroleum products:

|               |                    |
|---------------|--------------------|
| Propane       | .. 874,955 barrels |
| Normal Butane | 251,988 barrels    |

|                  |                               |
|------------------|-------------------------------|
| Iso-butane       | ..... 71,299 barrels          |
| Natural Gasoline | ..... 170,793 barrels         |
| Condensate       | ..... 28,879 barrels          |
| Total            | ..... 1,397,914 barrels       |
|                  | (48,927,042 Imperial gallons) |

## STORAGE

Provo acquired the underground storage facilities owned by Steelman at Melville, Saskatchewan.

These facilities include three separate underground storage caverns with a total capacity of approximately 20 million Imperial gallons. The caverns are used to store excess summer propane and butane production from the Steelman and Edmonton plants, which is then sold during the high-demand period each winter. These facilities are located at the main rail junction serving northern Manitoba and a large portion of the stored product is marketed in that area.

A fourth well has been drilled and the washing operations, to enlarge the storage cavern at the bottom of this well, will be carried out during the summer months.

Additional income is derived from these facilities by storing product for other companies producing propane and butane.

## MARKETING

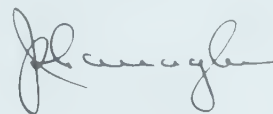
Provo has also acquired the marketing facilities of Steelgas Limited, which owns and

operates propane gas distribution facilities in The Pas, Flin Flon, Thompson, Fort Churchill, Cranberry Portage and Snow Lake, all in northern Manitoba.

The Company has entered into a long-term contract for the purchase of propane from Pacific Petroleum Limited to augment the supply for its northern Manitoba marketing operation. This product will be taken from the Petroleum Transmission Company's Empress to Winnipeg pipeline at Grenfell, Saskatchewan, and moved to our underground storage facilities at Melville by a pipeline to be constructed by Provo this summer. The propane stored at Melville will be moved to our northern Manitoba markets by railway and/or tank truck. The Company plans on ultimately extending the Grenfell to Melville pipeline north to The Pas, Manitoba, when warranted by increased product sales.

The Directors wish to express their appreciation for the keen interest and initiative of all the individuals associated with the Company's operations.

On behalf of the Board,



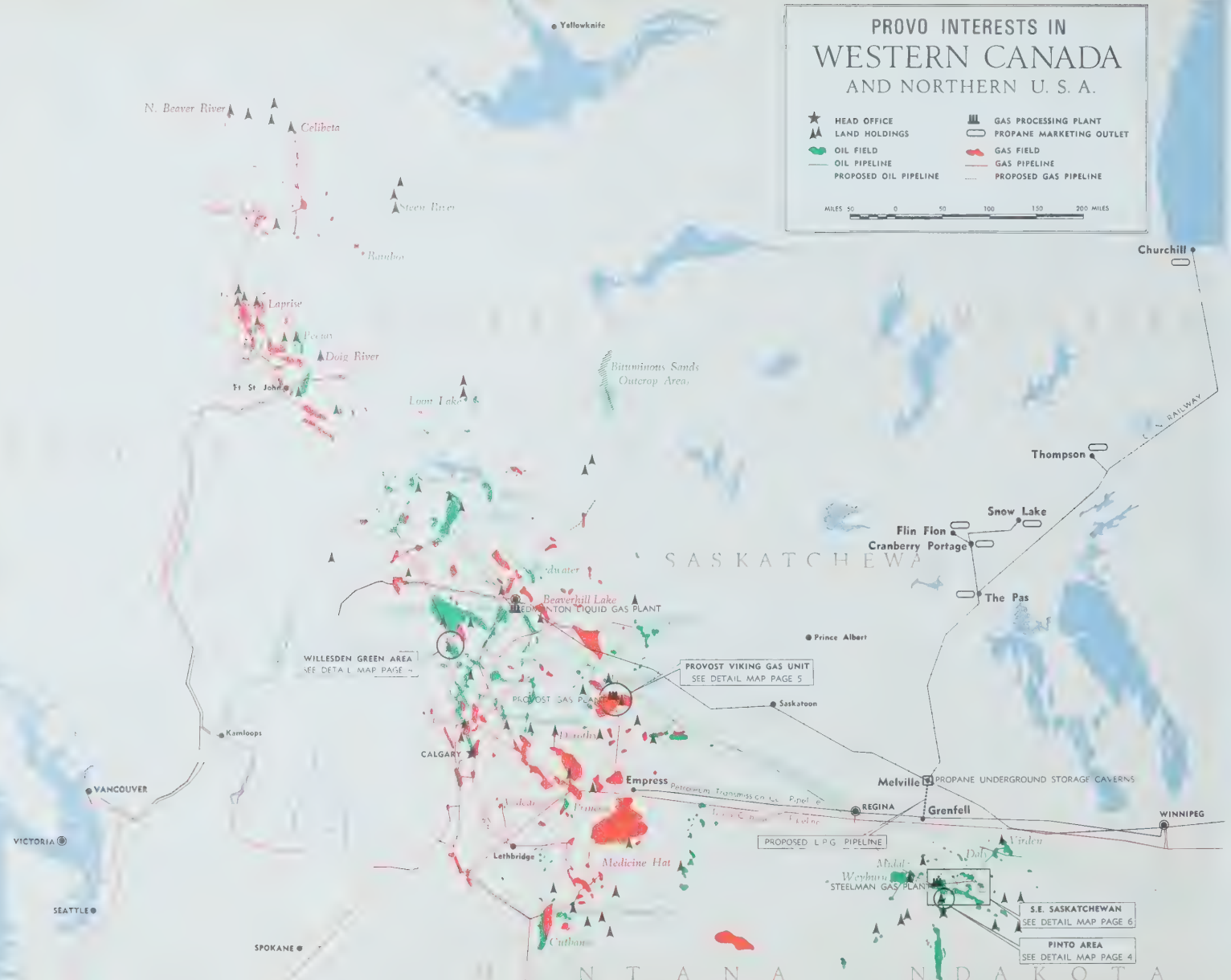
President.

April 30, 1965.



# PROVO INTERESTS IN WESTERN CANADA AND NORTHERN U. S. A.

- |                         |                            |
|-------------------------|----------------------------|
| ★ HEAD OFFICE           | ⏏ GAS PROCESSING PLANT     |
| ▲ LAND HOLDINGS         | ◻ PROpane MARKETING OUTLET |
| ■ OIL FIELD             | ■ GAS FIELD                |
| — OIL PIPELINE          | — GAS PIPELINE             |
| — PROPOSED OIL PIPELINE | — PROPOSED GAS PIPELINE    |



# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 1964 AND 1963

### Income:

|                                                    | 1964        | 1963          |
|----------------------------------------------------|-------------|---------------|
|                                                    |             | (Notes 1 & 2) |
| Natural gas sales less royalties                   | \$2,046,428 | \$1,831,498   |
| Crude oil sales less royalties                     | 1,155,757   | 987,983       |
| Propane and other product sales less cost of sales | 3,120,825   | 2,947,015     |
| Other income                                       | 237,514     | 120,357       |

Less operating, general and administrative expenses

Operating income before depreciation, depletion and other charges

|           |           |
|-----------|-----------|
| 6,560,524 | 5,886,853 |
| 2,360,222 | 2,080,782 |
| 4,200,302 | 3,806,071 |

### Deduct:

|                                                     |           |           |
|-----------------------------------------------------|-----------|-----------|
| Interest .....                                      | 1,105,115 | 922,392   |
| Acreage rentals on undeveloped properties           | 205,341   | 200,544   |
| Exploration, dry holes and lease abandonments ..... | 338,214   | 281,677   |
| Depreciation and depletion                          | 1,585,063 | 1,536,269 |
| Amortization of financing expenses                  | 50,307    | 74,304    |

|           |           |
|-----------|-----------|
| 3,284,040 | 3,015,186 |
|-----------|-----------|

Net income for the year (Notes 1 and 5)

|            |            |
|------------|------------|
| \$ 916,262 | \$ 790,885 |
|------------|------------|

See accompanying notes.

PROVO GAS PRODUCERS LIMITED  
AND ITS WHOLLY OWNED  
SUBSIDIARIES

CONSOLIDATED  
BALANCE  
SHEET

DECEMBER 31, 1964  
AND 1963

ASSETS

CURRENT:

|                                                         | 1964             | 1963             |
|---------------------------------------------------------|------------------|------------------|
| Cash                                                    | \$ 255,376       | \$ 113,022       |
| Accounts receivable—trade .....                         | 1,405,467        | 1,119,057        |
| —affiliated company                                     | 63,243           | 14,428           |
| Inventories valued at the lower of cost or market ..... | 966,900          | 880,944          |
| Prepaid expenses .....                                  | 88,267           | 34,575           |
|                                                         | <u>2,779,253</u> | <u>2,162,026</u> |

AMORTIZATION FUND FOR RETIREMENT OF FIRST MORTGAGE BONDS:

|                                                                                                |                  |                  |
|------------------------------------------------------------------------------------------------|------------------|------------------|
| Cash and marketable securities at cost (which approximates market value) plus accrued interest | 2,360,255        | 1,736,708        |
| Amortization fund instalment due February 15, 1965-per contra ..                               | 500,000          | 525,000          |
|                                                                                                | <u>2,860,255</u> | <u>2,261,708</u> |

PROPERTY, PLANT AND EQUIPMENT AT COST:

|                                                                                                                               |                   |                   |
|-------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Producing properties (including well development expenditures) less accumulated depletion of \$1,917,073 (1963 - \$1,510,457) | 9,979,860         | 8,710,186         |
| Non-producing properties                                                                                                      | 2,247,739         | 1,672,212         |
| Gas plants and gathering systems less accumulated depreciation of \$5,190,003 (1963 - \$4,177,484) .....                      | 12,141,451        | 12,024,176        |
| Propane marketing equipment less accumulated depreciation of \$86,559 (1963 - \$41,693)                                       | 2,648,042         | 2,047,593         |
| Production and other equipment less accumulated depreciation of \$489,637 (1963 - \$387,679) .....                            | 1,383,436         | 1,226,994         |
|                                                                                                                               | <u>28,400,528</u> | <u>25,681,161</u> |

OTHER:

|                                                                                          |                     |                     |
|------------------------------------------------------------------------------------------|---------------------|---------------------|
| Financing, market development and pre-production expenses less amounts written off ..... | 616,970             | 509,896             |
| Investments and deposits .....                                                           | 265,484             | 99,930              |
| Preliminary expenditures re proposed pipeline .....                                      | 167,726             | 127,586             |
|                                                                                          | <u>1,050,180</u>    | <u>737,412</u>      |
|                                                                                          | <u>\$35,090,216</u> | <u>\$30,842,307</u> |

See accompanying notes.

(Notes 1 & 2)



## LIABILITIES

### CURRENT:

|                                                                       |              |              |
|-----------------------------------------------------------------------|--------------|--------------|
| Accounts payable and accrued charges .....                            | \$ 1,449,591 | \$ 1,342,483 |
| Due to affiliated company .....                                       | 207,917      | 319,729      |
| Accrued interest on long term debt .....                              | 191,217      | 215,827      |
| Amortization fund instalment due February 15, 1965 - per contra ..... | 500,000      | 525,000      |
| Current instalments on long term debt .....                           | 744,172      | 600,000      |

|                  |                  |
|------------------|------------------|
| <u>3,092,897</u> | <u>3,003,039</u> |
|------------------|------------------|

|                               |            |            |
|-------------------------------|------------|------------|
| LONG TERM DEBT (Note 3) ..... | 18,858,164 | 15,616,375 |
|-------------------------------|------------|------------|

|                                       |        |        |
|---------------------------------------|--------|--------|
| MINORITY INTEREST IN SUBSIDIARY ..... | 60,902 | 60,902 |
|---------------------------------------|--------|--------|

### SHAREHOLDERS' EQUITY (Notes 1 and 4):

#### Capital—

Authorized—10,000,000 shares of no par value

Issued— 8,441,359 shares (1963 includes 625,793

shares issued in 1964 on acquisition of Steelman

|                     |            |            |
|---------------------|------------|------------|
| Gas Limited ) ..... | 12,179,581 | 12,179,581 |
|---------------------|------------|------------|

|                                                |         |          |
|------------------------------------------------|---------|----------|
| Earned surplus (deficit) - per statement ..... | 898,672 | (17,590) |
|------------------------------------------------|---------|----------|

|                   |                   |
|-------------------|-------------------|
| <u>13,078,253</u> | <u>12,161,991</u> |
|-------------------|-------------------|

### COMMITMENT (Note 6)

On behalf of the Board:

J. P. GALLAGHER, Director

D. M. WOLCOTT, Director

|                     |                     |
|---------------------|---------------------|
| <u>\$35,090,216</u> | <u>\$30,842,307</u> |
|---------------------|---------------------|

1963

(Notes 1 & 2)

## AUDITORS' REPORT

To the Shareholders of  
Provo Gas Producers Limited.

We have examined the consolidated balance sheet of Provo Gas Producers Limited and its wholly owned subsidiaries at December 31, 1964 and the consolidated statements of income and earned surplus and source and application of funds for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the companies, the consolidated statements mentioned above are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Provo Gas Producers Limited and its wholly owned subsidiaries at December 31, 1964, the results of their operations for the year then ended and the factors giving rise to changes in their working capital during the year, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.

Chartered Accountants

Calgary, Alberta.  
April 22, 1965.

PROVO GAS PRODUCERS LIMITED AND ITS WHOLLY OWNED SUBSIDIARIES  
**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS**

YEAR ENDED DECEMBER 31, 1964

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|                                                                                                       |             |            |
|-------------------------------------------------------------------------------------------------------|-------------|------------|
| Source of funds:                                                                                      |             |            |
| Net income for the year .....                                                                         |             | \$ 916,262 |
| Add charges for depletion, depreciation, amortization, dry holes<br>and surrendered leases .....      |             | 1,817,223  |
|                                                                                                       |             | <hr/>      |
| Funds generated from operations .....                                                                 |             | 2,733,485  |
| Proceeds from issue of 5¼ % First Mortgage Serial Bonds .....                                         | \$9,721,313 |            |
| Less retirement of bonds, debentures and bank loans .....                                             | 6,984,000   | 2,737,313  |
|                                                                                                       |             | <hr/>      |
| Proceeds from bank loan .....                                                                         |             | 648,648    |
|                                                                                                       |             | <hr/>      |
|                                                                                                       |             | 6,119,446  |
| <hr/>                                                                                                 |             |            |
| Application of funds:                                                                                 |             |            |
| Expenditures for property, plant and equipment .....                                                  |             | 4,486,283  |
| Increase in amortization fund for retirement of<br>First Mortgage Bonds of Steelman Gas Limited ..... |             | 598,547    |
| Increase in current instalments of long term debt .....                                               |             | 144,172    |
| Investments, deposits, market development costs, etc. ..                                              |             | 363,075    |
|                                                                                                       |             | <hr/>      |
|                                                                                                       |             | 5,592,077  |
|                                                                                                       |             | <hr/>      |
| Increase in working capital .....                                                                     |             | \$ 527,369 |
|                                                                                                       |             | <hr/>      |

**CONSOLIDATED STATEMENT OF EARNED SURPLUS**

YEAR ENDED DECEMBER 31, 1964

|                                                                               |            |             |
|-------------------------------------------------------------------------------|------------|-------------|
| Balance December 31, 1963 .....                                               |            | \$1,774,002 |
| Deduct:                                                                       |            |             |
| Losses to December 31, 1963 of subsidiaries not previously consolidated ..... | \$ 369,788 |             |
| Deficit of Steelman Gas Limited at December 31, 1963 (Note 1) ..              | 1,421,804  | 1,791,592   |
|                                                                               |            | <hr/>       |
|                                                                               |            | (17,590)    |
| Add net income for the year .....                                             |            | 916,262     |
|                                                                               |            | <hr/>       |
| Balance December 31, 1964 .....                                               |            | \$ 898,672  |
|                                                                               |            | <hr/>       |

See accompanying notes.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1964

## 1. ACQUISITION OF STEELMAN GAS LIMITED

As a result of an offer made on August 3, 1964, the Company, through a subsidiary, acquired an additional 625,793 shares of Steelman Gas Limited in exchange for an equal number of shares of the Company's capital stock, thus increasing the aggregate holdings of Steelman shares to approximately 98%. For accounting purposes this transaction has been treated as a pooling of interests and accordingly the consolidated financial statements include the assets, liabilities and operating results of Steelman Gas Limited as though the companies had been combined throughout the 1963 and 1964 years.

## 2. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all its subsidiaries. For comparative purposes, in addition to the inclusion of the accounts of Steelman Gas Limited (Note 1), the 1963 accounts have been adjusted to include the accounts of subsidiaries not previously consolidated.

## 3. LONG TERM DEBT

Details of the companies' long term debt are as follows:

|                                                                                                                                            | 1964       | 1963         |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------|--------------|
| <b>Provo Gas Producers Limited</b>                                                                                                         |            |              |
| Bank loan - due \$400,000 annually                                                                                                         | \$ 900,000 | \$ 1,600,000 |
| 5½% First Mortgage Serial Bonds Series A, due November 15, 1984 (redeemable in varying annual amounts commencing in 1967) U.S. \$9,000,000 | 9,721,313  | —            |
| 6% First Mortgage Sinking Fund Bonds Series A, due September 1, 1974                                                                       | —          | 3,000,000    |
| 5¼% First Mortgage Serial Bonds Series A, due \$300,000 annually                                                                           |            | 300,000      |
| <b>Steelman Gas Limited</b>                                                                                                                |            |              |
| 6% First Mortgage Bonds due February 15, 1970 subject to amortization fund Series A (U.S. \$4,000,000)                                     | 4,324,000  | 4,324,000    |
| Series B                                                                                                                                   | 1,455,000  | 1,455,000    |
| 6% Debentures Series A due May 15, 1973 subject to sinking fund (no payment required in 1965)                                              | 2,000,000  | 2,000,000    |
| Bank loan due in 1965                                                                                                                      | 246,875    | 546,875      |
| <b>Western Naco Petroleum Limited</b>                                                                                                      |            |              |
| 5½% Secured Convertible Debentures due July 1, 1970 subject to sinking fund (no payment required in 1965)                                  | 306,500    | 318,500      |

Provo Inc.

|                                                                                                                                                          |                     |                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Bank loan (U.S. \$600,000) payable U.S. \$22,500 quarterly to December 31, 1968 and U.S. \$30,000 quarterly thereafter (Secured by producing properties) | 648,648             | —                   |
| Bank loans of other subsidiaries                                                                                                                         | —                   | 2,672,000           |
|                                                                                                                                                          | 19,602,336          | 16,216,375          |
| Less instalments due within one year included in current liabilities                                                                                     | 744,172             | 600,000             |
|                                                                                                                                                          | <u>\$18,858,164</u> | <u>\$15,616,375</u> |

## 4. CAPITAL

During 1964, 625,793 shares were issued at a recorded value of \$1,570,928 in exchange for 625,793 shares of Steelman Gas Limited (see Note 1).

573,257 shares of the Company's capital stock were reserved at December 31, 1964 as follows:

- 219,000 shares for options granted to Dome Petroleum Limited at \$2.20 per share exercisable until August 1, 1966 providing the management contract remains in force.
- 150,000 shares for the granting of options to officers and employees at \$1.60 per share exercisable on various dates to April 1, 1968. Options have been granted in respect of 102,000 shares.
- 24,257 shares for issue in exchange for the balance of the outstanding shares of Steelman Gas Limited.
- 180,000 shares for the Stock Purchase Warrant Holders of Steelman Gas Limited under the terms of the share exchange agreement at \$2.50 per share until September 30, 1965 and at varying rates thereafter until September 30, 1970.

## 5. INCOME TAXES

Under Canadian income tax law, lease acquisition costs and drilling and exploration expenditures may be deducted from income in the year of expenditure or, if such expenditures exceed the income for the year, the excess may be carried forward to subsequent years. For this reason and because of losses incurred by certain subsidiaries in prior years, no provision for income taxes is required by the companies for the year ended December 31, 1964 and at that date certain operating losses and an excess of lease acquisition costs and drilling and exploration expenditures were available to be carried forward against future taxable income.

## 6. COMMITMENTS

Steelman Gas Limited has leased, with an option to purchase, certain compressor equipment requiring varying quarterly rental payments aggregating \$674,200 to November 1, 1969.



# Statistical Review 1956-1964

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| FINANCIAL                                                          | 1964*       | 1963        | 1962        | 1961        | 1960        | 1959        | 1958        | 1957       | 1956      |
|--------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-----------|
| Gross Income (after royalties and cost of sales) ..                | \$6,560,524 | \$2,821,432 | \$2,558,625 | \$2,259,208 | \$1,648,420 | \$1,292,086 | \$ 838,694  | \$ 188,118 | \$ —      |
| Operating Income (after all optg. & admin. exp.)                   | 4,200,302   | 2,100,238   | 1,940,716   | 1,673,614   | 1,128,702   | 835,354     | 456,278     | 21,083     | —         |
| Operating Income per share .....                                   | 50¢         | 27¢         | 25¢         | 21¢         | 15¢         | 11¢         | 7¢          | —          | —         |
| Interest .....                                                     | 1,105,115   | 232,284     | 246,793     | 259,689     | 264,110     | 170,753     | 108,279     | 11,640     | 8,920     |
| Exploration Costs (including dry holes & lease abandonments) ..... | 338,214     | 281,677     | 398,982     | 109,145     | 140,934     | 129,810     | 154,098     | 151,647    | 113,053   |
| Depreciation & Depletion                                           | 1,585,063   | 625,611     | 604,688     | 558,621     | 321,709     | 263,446     | 164,132     | 56,529     | —         |
| Net Income (after all charges) .....                               | 916,262     | 753,463     | 495,259     | 591,513     | 281,893     | 151,241     | (34,386)    | (313,212)  | (279,846) |
| Net Income per Share ....                                          | 11¢         | 10¢         | 6¢          | 8¢          | 4¢          | 2¢          | —           | (5¢)       | (4¢)      |
| Shares Outstanding .....                                           | 8,441,359   | 7,815,566   | 7,815,566   | 7,815,566   | 7,634,235   | 7,603,235   | 6,488,238   | 6,488,238  | 6,488,238 |
| Working Capital (Deficit)                                          | (313,644)   | (365,595)   | (75,163)    | 1,323,690   | 1,451,960   | 1,693,674   | (2,320,191) | (965,297)  | 803,056   |
| Long Term Debt .....                                               | 18,858,164  | 4,918,500   | 3,626,500   | 3,941,500   | 3,900,000   | 4,200,000   | —           | —          | —         |
| Oil & Gas Development Expenditures .....                           | 837,751     | 1,068,790   | 778,168     | 495,363     | 509,609     | 385,669     | 157,393     | 692,449    | 160,586   |
| Gas Plant & Gathering System Exp. ....                             | 1,129,794   | 416,850     | 564,442     | 232,503     | 22,231      | 495,036     | 405,982     | 1,516,666  | —         |
| Marketing Facility Exp. ....                                       | 645,315     | —           | —           | —           | —           | —           | —           | —          | —         |
| Land Acquisition Exp. ....                                         | 1,701,184   | 391,594     | 541,264     | 138,735     | 56,935      | 6,167       | 47,951      | 176,617    | 6,046,918 |

\*Consolidated figures include Provo, Steelman Gas Limited, Edmonton Liquid Gas Limited and all subsidiaries.



| OPERATING                                                            | 1964*      | 1963      | 1962      | 1961      | 1960      | 1959      | 1958      | 1957      | 1956    |
|----------------------------------------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|
| Gas Production from gas fields<br>(million cubic feet) .....         | 18,866     | 17,754    | 16,870    | 16,330    | 12,410    | 11,600    | 8,400     | 1,380     | —       |
| Average Daily Gas Production<br>(million cubic feet) .....           | 51.5       | 48.6      | 46.2      | 44.7      | 33.9      | 31.8      | 23.0      | 3.8       | —       |
| Residue Gas Production from oil<br>fields (million cubic feet) ..... | 7,554      | —         | —         | —         | —         | —         | —         | —         | —       |
| Average Daily Residue Gas Production<br>(million cubic feet) .....   | 20.6       | —         | —         | —         | —         | —         | —         | —         | —       |
| Oil Production (net barrels) .....                                   | 474,078    | 425,080   | 362,184   | 294,813   | 162,496   | 92,714    | 38,618    | 21,705    | —       |
| Average Daily Oil Production<br>(net barrels) .....                  | 1,295      | 1,165     | 992       | 808       | 444       | 254       | 106       | 59        | —       |
| Liquefied Petroleum Gas Production<br>(Imp. gallons) .....           | 48,927,042 | —         | —         | —         | —         | —         | —         | —         | —       |
| Average Daily L.P.G. Production<br>(Imp. gallons) .....              | 133,680    | —         | —         | —         | —         | —         | —         | —         | —       |
| Estimated Proved Natural Gas<br>Reserves (billion cubic feet) .....  | 526*       | 547       | 564       | 575       | 586       | 596       | 567       | 575       | 484     |
| Est. Proved Oil & Condensate<br>Reserves (net barrels) .....         | 8,332,000  | 6,985,000 | 5,854,000 | 4,600,000 | 3,355,000 | 2,700,000 | 1,206,000 | 1,000,000 | —       |
| Wells Drilled .....                                                  | 51         | 43        | 35        | 19        | 35        | 11        | 8         | 20        | 3       |
| Net Gas Wells .....                                                  | 58         | 57        | 54        | 49        | 44        | 42        | 38        | 33        | 32      |
| Net Oil Wells .....                                                  | 67         | 59        | 51        | 46        | 27        | 21        | 9         | 5         | 1       |
| Acreage - Gross .....                                                | 5,110,105  | 5,127,520 | 4,991,393 | 3,043,980 | 1,228,284 | 1,209,675 | 984,867   | 773,396   | 394,975 |
| Acreage - Net .....                                                  | 1,225,447  | 1,232,287 | 1,159,497 | 988,273   | 464,775   | 439,665   | 492,294   | 468,892   | 323,216 |

\*Includes operating figures for Provo, Steelman Gas Limited, Edmonton Liquid Gas Limited and all subsidiaries.

\*Reflects sale of proved gas properties for producing oil reserves.

